

Message Text

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SUBJECT:"LOS ANGELES TIMES" ARTICLE ON U.S./BAHAMIAN
TAX TREATY

REF: NASSAU 1465

1. FOLLOWING IS COMPLETE TEXT OF ARTICLE BY ROBERT
JACKSON IN SEPTEMBER 14 "LOS ANGELES TIMES."

QUOTE: THE TREASURY AND STATE DEPARTMENTS HAVE BEGUN WHAT
PROMISES TO BE CONTROVERSIAL NEGOTIATIONS TOWARD A
POSSIBLE TAX TREATY WITH THE BAHAMAS, THE TIMES LEARNED
MONDAY.

IF ADOPTED BY BOTH COUNTRIES, SUCH A TREATY COULD HASTEN
THE END OF OFFSHORE TAX SHELTERS WHICH AUTHORITIES SAY
HAVE COST THE U.S. GOVERNMENT HUNDREDS OF MILLIONS OF
DOLLARS.

UNDER SUCH AN AGREEMENT, NOW IN DRAFT FORM, THE
BAHAMIAN GOVERNMENT COULD BE CALLED UPON BY THE INTERNAL
REVENUE SERVICE TO PROVIDE DETAILS OF FINANCIAL DEALINGS
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IN THE ISLANDS BY AMERICANS. THIS COULD REMOVE SOME OF

THE ATTRACTIVENESS OF FOREIGN TRUST ACCOUNTS, WHICH

WEALTHY U.S. CITIZENS HAVE OPENED IN RECENT YEARS.

BUT HOW TOUGH THE TREATY WILL BE IN ITS FINAL FORM IS UNCERTAIN. SOME U.S. AUTHORITIES FEAR THE BAHAMAS MAY INSIST ON A "COSMETIC" AGREEMENT THAT GIVES THE APPEARANCE OF COOPERATION BUT STILL LEAVES INTACT ITS STRICT BANK SECRECY LAW.

THAT 1966 STATUTE, LONG CONSIDERED AN OBSTACLE BY U.S. TAX INVESTIGATORS, PROVIDES CRIMINAL PENALTIES FOR ANY BANKER IN THE BAHAMAS WHO DISCLOSES INFORMATION FROM A CUSTOMER'S ACCOUNT.

DAVID FOSTER, THE TREASURY DEPARTMENT'S INTERNATIONAL TAX COUNSEL, SAID THE BAHAMIAN BANK SECRECY ACT "IS A QUESTION WE WOULD HOPE TO EXPLORE" IN THE TREATY TALKS.

"MAYBE THE TREATY CAN OVERRIDE IT," FOSTER SAID. "THE BAHAMAS SEEM INTERESTED IN AVOIDING THE REPUTATION OF A TAX HAVEN."

ANOTHER SOURCE ECHOED FOSTER'S VIEW, SAYING THE BAHAMAS "SEEM ANXIOUS TO CREATE A SPIRIT OF COOPERATION" IN RESPONSE TO A MASSIVE IRS-DEPARTMENT OF JUSTICE INVESTIGATION INTO THE AFFAIRS OF TAX SHELTERING CASTLE BANK AND TRUST CO. OF NASSAU.

"BUT OUR DISCUSSIONS ARE VERY PRELIMINARY," THIS SOURCE CAUTIONED. "FRANKLY, WE'RE NOT SURE WHAT THE BAHAMAS HAVE IN MIND."

HE ADDED, HOWEVER, THAT AN EFFECTIVE TREATY "WOULD ENABLE US TO REVIEW TAX HAVEN ACTIVITY TO MAKE SURE IT'S LEGITIMATE."

A SIX-PAGE DRAFT TREATY IS BEING CIRCULATED WITHIN THE TREASURY AND STATE DEPARTMENTS, BUT HAS NOT YET BEEN FORWARDED TO THE BAHAMAS, ONE OFFICIAL SAID.

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MISGIVINGS ABOUT THE TREATY TALKS HAVE SPRUNG UP AMONG SOME FEDERAL LAW ENFORCEMENT AUTHORITIES WHO HAVE LEARNED ABOUT THEM.

"I'D SAY OUR NEGOTIATORS ARE BEING LED DOWN THE GARDEN PATH," SAID A GOVERNMENT INVESTIGATOR FAMILIAR WITH BAHAMIAN ATTITUDES.

"THE BAHAMIANS ARE NOT ABOUT TO YIELD ANYTHING THAT WOULD
DIMINISH THEIR STATUS AS A TAX SHELTER. THEY GET TOO MUCH
INCOME THAT WAY."

THE BAHAMA ISLANDS, WHICH OBTAINED THEIR INDEPENDENCE
FROM GREAT BRITAIN IN 1973, HAVE ATTRACTED BILLIONS OF
DOLLARS IN U.S. INVESTMENTS BECAUSE THERE ARE NO INCOME
TAXES OR ESTATE TAXES.

FOREIGN TRUST ACCOUNTS HELD BY U.S. CITIZENS CAN THERE-
FORE GENERATE PROFITS THAT ARE NOT TAXABLE--UNLESS THESE
PROFITS ARE BROUGHT BACK TO THE UNITED STATES.

(THE CONGRESSIONAL TAX REFORM BILL APPROVED BY
CONFEREES LAST WEEK WOULD CHANGE THIS, MAKING FOREIGN
TRUST ACCOUNTS FULLY TAXABLE. THE BILL HAS NOT YET PASSED
CONGRESS.)

TO DATE, THE UNITED STATES HAS TAX TREATIES WITH 35 FOREIGN
COUNTRIES THAT PROVIDE FOR AN EXCHANGE OF TAXPAYER INFOR-
MATION THAT CAN BE USED IN CIVIL AND CRIMINAL CASES. BUT
SINCE THE BAHAMAS HAS NO TAX SYSTEM, IT PRESUMABLY WOULD
HAVE LITTLE TO GAIN ITSELF FOR AN INFORMATION EXCHANGE
PROGRAM. UNQUOTE. ROBINSON

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